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中國碳中和發展集團有限公司
China Carbon Neutral Development Group Limited
(incorporated in the Cayman Islands with limited liability)
(Stock code: 1372)

SUPPLEMENTAL ANNOUNCEMENT
DISCLOSEABLE TRANSACTION
ACQUISITION OF 60% EQUITY OF ZAILIANG NEW ENERGY

References are made to a discloseable transaction transaction on Acquisition of a 60% Equity Interest in Zailiang New Energy on 15 November 2024 and voluntary announcement thereon on 22 October 2023. Unless otherwise stated, all the capitalised terms used in this announcement shall have the same meanings as defined in the Announcement.

The Company would like to supplement the additional information thereon.

Subject of the Acquisition:

The financials for the year ended 31 December 2023 (unaudited) and for the year ended 31 December 2022 (audited) of the Zailiang New Energy are set out below.

RMB'000		
For the year ended 31 December	2023	2022
Revenue	42,025	22,398
Profit before taxation	(1,928)	606
Profit for the year	(1,943)	606
As at 31 December		
Total assets	7,187	36,881
Total liabilities	1,128	27,037
Net assets	6,058	9,844

Consideration and settlement

The Consideration of HK\$30 million was arrived at based on Asset Valuation Report as to valuation base date of 31 December 2022 produced by a PRC qualified independent valuer, Zhonglin Asset Appraisal (Beijing) Co., Ltd by appraising the total equity value of Zailiang New Energy under income approach.

The key assumptions as to the valuation were as follows:

1. Revenue growth rates for the 5 forecast years to 2027:
2023 200%, 2024 100%, 2025 50%, 2026 30%, 2027 10%

Considerations for the growth rate assumption:

Zailiang New Energy is a technology enterprise for the dismantling, recycling and reuse of new energy power lithium batteries. The company is located in the industrial agglomeration area of Sheqi County, Nanyang City, Henan Province, with a plant of about 6,500 square meters. The main business is the dismantling, recycling and reuse of lithium batteries for new energy vehicles, the treatment of waste electrical and electronic products, and the recycling of renewable resources, with a registered capital of RMB10 million.

In 2022, Zailiang New Energy was selected into the list of enterprises in the "Industry Standard Conditions for the Comprehensive Utilization of Waste Power Batteries for New Energy Vehicles" (the fourth batch) issued by the Ministry of Industry and Information Technology of the People's Republic of China, which is called "whitelist enterprises" in the industry and one of the four whitelist enterprises in Henan Province. This not only represents the strict requirements and affirmation of the company in technology, management and environmental protection at the national level, but also an extremely scarce industry pass, ie the company can legally carry out the recycling, treatment and reuse of waste batteries, laying a solid foundation for the company's sustainable development and profitable growth.

At present, the whitelist approval window for lithium battery echelon utilization is closed, and even if the re-approval is resumed, the requirements for enterprises will be more stringent, and the time will take more than 2 years.

Zailiang New Energy has a certain market position in the industry, and is BYD selected as a white-listed enterprise for the disposal of renewable resources, and the company has maintained close cooperation with upstream and downstream enterprises such as BYD, Iron Tower, and Ganfeng Lithium for a long time.

Market prospects:

China's waste lithium battery cascade utilization market has broad prospects, which is mainly reflected in the following aspects:

- i. Increased market demand: With the increase in the number of new energy vehicles, the number of waste lithium batteries will continue to grow. It is estimated that by 2025, the number of new energy vehicles in China will reach 20 million, and the corresponding number of waste lithium batteries will reach 1 million tons.
- ii. Increased policy support: The government will continue to introduce more supportive policies to promote the standardization and large-scale development of the waste lithium battery cascade utilization industry.

2. Discount rate representing the weighted average cost of capital where the cost of equity was computed in applying the capital asset pricing model was computed as 13.45%

3. Terminal growth rate for the perpetual period beyond the 5 forecast years: 0%

In each of the 5 forecast years, the free cash flow was calculated as profit after tax plus depreciation plus interest x (1 - tax rate) minus capex minus working capital change was discounted at the discounted rate to arrive at the present value. The valuation is the summation of (i) the present value for these 5 years plus (ii) that present value for the perpetual period beyond 2027 which was derived as discounting the free cash flow for 2027 after divided by the discounted rate.

The calculated appraised value amounted to RMB80.8315 million whose 60% amounted to RMB48.4989 million, translated to HK\$52.8638 million at exchange rate 1.09 at 15 March 2024. After bargaining taking into account the key assumption of growth and the risk of Zailiang New Energy, the consideration was agreed at HK\$30 million which represented 56.75% of the said appraised value. In reducing the independent appraised value as of 31 December 2022 to its 56.75% on 15 March 2024 in the bargain on an arm's length basis, the Directors opined that the consideration was fair and reasonable.

The Considerations of HK\$18 million and HK\$12 million would be paid by the Purchaser to the respective Vendors, Nanyang Xinweiyuan and Henan Aki in 2 parts. RMB3.6 million and RMB2.4 million totalling RMB6 million had been paid to the said respective Vendors in or before November 2023 after entering into the Initial Agreements on 22 October 2023.

A subsequent payment of RMB10.95 million was made to Nanyang Xinweiyuan on 15 March 2024, the date of entering into the Equity Transfer Supplementary Agreement.

The Directors took the view that the terms of the Equity Transfer Supplementary Agreement including the consideration were on normal commercial terms which were fair and reasonable and the entering into the transaction was in the interests of the Company and its Shareholders as a whole.

Reasons and benefits of Acquisition

The consideration of RMB6 million was the registered capital for registration of the equity owners in the local authority which was also the initial pegged monies for the whole consideration to be negotiated thereafter.

The Acquisition was completed on 18 March 2024 when the articles of Zailiang New Energy were updated to reflect the change of equity owners.

The final amount of consideration could not be determined and agreed until the actual results for 2023 came out in February 2024.

In light of the final agreed consideration representing 50 to 60% of the appraised value on an arm's length basis, the Directors took the view that the consideration of HK\$30 million was fair and reasonable.

Information on the Vendors

The equity owners of Nanyang Xinweiyuan are Li Sa as to 83% and Li Qing as to 17%. The equity owners of Henan Aki are Fang Jianjun as to 51% and Lu Jianling as to 49%.

Listing Rules Implication

The Company published the announcement on 15 November 2024 which was 8 months after the date of Equity Transfer Supplementary Agreement. The Directors assessed that the Company had not timely complied with the requirement under Chapter 14 of the Listing Rules. In this connection, all of the officers of the Group are instructed by the Board that they are strictly required to liaise the Company Secretary for advice on if the transactions fall under Chapter 14 or 14A of the Listing Rules where the Board approval is required to be attained and announcement thereunder would be issued as soon as possible in compliance with the Listing Rules.

By order of the Board
China Carbon Neutral Development Group Limited
Zhong Guoxing
Chairman and Executive Director

Hong Kong, 9 December 2024

As at the date of this announcement, the Executive Directors are Mr. Zhong Guoxing, Mr. Di Ling and Mr. Lu Xiangyong; the Non-executive Director, Mr. Geng Zhiyuan and the Independent Non-executive Directors are Mr. Wang Anyuan, Mr. Wang Jiasi and Ms. Lan Haiqing.